

Message Text

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14

ACTION NEA-10

INFO OCT-01 AF-08 EUR-12 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 OMB-01 IO-13 AID-05 COME-00 EB-07 FRB-03

TRSE-00 XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01 STR-04

CEA-01 /122 W

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R 091847Z JUL 76

FM AMEMBASSY RABAT

TO SECSTATE WASHDC 9136

INFO AMEMBASSY ALGIERS

AMEMBASSY MADRID

AMEMBASSY NOUAKCHOTT

AMEMBASSY TUNIS

LIMITED OFFICIAL USE RABAT 3704

E.O. 11652: N/A

TAGS: EGEN EFIN PFOR MO

SUBJECT: KING'S ANNUAL BIRTHDAY SPEECH: ECONOMIC ASPECTS

1. KING'S ADDRESS ALMOST EQUALLY DIVIDED IN CONTENT BETWEEN INTERNAL POLITICS, SAHARA, AND ECONOMY. POLITICAL ELEMENTS REPORTED SEPARATELY.

2. ON ECONOMIC SIDE, KING ASKED NATION TO MAINTAIN "SOCIAL PEACE" IN FACE OF SAHARA SITUATION AND PROBLEM POSED BY ALGERIAN INTRANSIGENCE. PROMISE OF SALARY REVISIONS NEXT YEAR (AS WELL AS DOMESTIC ELECTIONS) HELD OUT AS INCENTIVE TO GOOD BEHAVIOR ON PART OF UNIONS.

3. IN CONTEXT OF \$1.2 BILLION NATIONAL BUDGET, KING ASSERTED THAT ONE-THIRD HAD GONE FOR DEFENSE-RELATED EXPENDITURES, MORE THAN CONFIRMING ASSUMPTION IN OUR LIMITED OFFICIAL USE

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JANUARY BUDGET ANALYSIS (RABAT 0108) THAT MUCH DEFENSE

MONEY LAYERED INTO OTHER SECTORS OF BUDGET AS PUBLICLY PRESENTED.

4. TURNING TO INFLATIONARY SITUATION, WHICH AS REPORTED RABAT A-56 (PAGE 4) HAS SINCE END MARCH SHIFTED BACK TO DOUBLE DIGIT RATE, KING CALLED FOR INTERNAL LOAN OF DH 1 BILLION (APPROXIMATELY \$220 MILLION) PAYING SEVEN PERCENT (WELL ABOVE PREVAILING RATE) TO REDUCE DOMESTIC DEMAND AND CONTAIN INFLATION. ALSO POINTED OUT THAT DOMESTIC LOAN WOULD "DEMONSTRATE TO MOROCCO'S DETRACTORS (I.E., ALGIERS) THAT COUNTRY REMAINS MOBILIZED AND READY TO GIVE SUBSTANCE AS WELL AS LIVES TO DEFEND NATIONAL TERRITORY." KING CONCLUDED ECONOMIC REMARKS WITH UP-BEAT OBSERVATION THAT GOOD HARVEST NOW IN PROSPECT (SEE RABAT A-76) WILL ALSO BENEFIT BOTH NATIONAL TREASURY AND BALANCE OF PAYMENTS.

5. COMMENT: ROYAL PITCH FOR "SOCIAL PEACE" REFLECTS TOP LEVEL ACKNOWLEDGEMENT OF RISING LABOR AND SOCIAL UNREST CREATED BY INFLATION OF PAST TWO YEARS. WHILE MODEST BY RECENT WORLD STANDARDS, 12-14 RATE OF RECENT PAST UNPRECEDENTED FOR MOROCCO AND PARTICULARLY HARD TO ABSORB BECAUSE MUCH OF POPULATION CLOSE TO SUBSISTENCE. AS REPORTED BY LABOR ATTACHE, NUMBER AND SERIOUSNESS OF STRIKE ACTIONS HAS BEEN RISING SIGNIFICANTLY. MAJOR WAGE INCREASE AT PRESENT TIME WOULD, HOWEVER, UNDERCUT BALANCE OF PAYMENTS AND CENTRAL BUDGET INVESTMENT PROGRAM SERIOUSLY. IF MORAL SUASION HAS ANY PLACE IN ECONOMIC POLICY ARMORY, KING HAS CHOSEN TO JAWBONE ON RIGHT ISSUE AT RIGHT TIME. CONNECTING PLEA WITH NEED FOR PATRIOTIC RESTRAINT BECAUSE OF ALGERIAN CONFRONTATION MAY WORK, THOUGH BELT-TIGHTENING WILL BE NO MORE POPULAR HERE THAN ELSEWHERE. PROMISED WAGE RISE IN SWEET BYE-AND-BYE LIKELY TO BE DISCOUNTED, AS HAS BEEN CASE OF PAST ELECTION PROMISES WHICH FAILED TO MATERIALIZE. BILLION DIRHAM DOMESTIC BOND ISSUE ALSO APPEARS REASONABLE MEANS FOR DIRECTING PATRIOTIC FERVOR INTO ECONOMIC CHANNEL. MONETARY BASE M1 EXPANDED 18.5 PERCENT DURING 1975 (M2 20.5 PERCENT) AND IT ALREADY LATE IN DAY TO WRING OUT SOME OF THIS LIQUIDITY IF INFLATIONARY LIMITED OFFICIAL USE

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BATTLE IS NOW BEING TAKEN SERIOUSLY. IF BORROWING MERELY RECYCLED INTO DEFENSE, HOWEVER, AS MOST LOCAL ECONOMISTS ASSUME, THERE IS DANGER THAT INFLATION WILL CONTINUE, WAGES FALL EVEN FURTHER BEHIND PRICES, AND TEMPERATURE RISE FURTHER IN SOCIAL PRESSURE COOKER OF CURRENT MOROCCAN ECONOMY. IN THIS EVENT, MORAL SUASION AND ECONOMIC MANIPULATION WILL LOSE FURTHER CREDIBILITY. END COMMENT.
ANDERSON

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